

**HOUGHTON-PORTAGE TOWNSHIP**  
**SCHOOL DISTRICT**

**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTAL INFORMATION**

**June 30, 2006**

## **TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>INDEPENDENT AUDITOR'S REPORT .....</b>	<b>4</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS .....</b>	<b>6</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
District-wide Financial Statements:	
Statement of Net Assets .....	13
Statement of Activities .....	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet .....	15
Statement of Revenues, Expenditures, and Changes in Fund Balance .....	16
Fiduciary Funds - Statement of Fiduciary Net Assets .....	17
<b>NOTES TO FINANCIAL STATEMENTS .....</b>	<b>18</b>
<b>REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION</b>	
Budgetary Comparison Schedule - General Fund .....	33
<b>OTHER SUPPLEMENTAL FINANCIAL INFORMATION</b>	
GENERAL FUND	
Statements of Revenues, Expenditures, and Changes in Fund Balances .....	35
DEBT SERVICE FUND	
Statements of Revenues, Expenditures, and Changes in Fund Balances .....	38
NON-MAJOR GOVERNMENTAL FUNDS	
Combining Balance Sheet .....	39
<u>School Service Fund</u>	
Statements of Revenues, Expenditures, and Changes in Fund Balances .....	40
<u>Athletic Fund</u>	
Statements of Revenues, Expenditures, and Changes in Fund Balances .....	41
<u>Community Service Fund</u>	
Statements of Revenues, Expenditures, and Changes in Fund Balances .....	42
FIDUCIARY FUNDS	
Trust and Agency Fund - Statement of Changes in Assets and Liabilities .....	43
Scholarship Fund - Statement of Changes in Assets and Liabilities .....	44

**TABLE OF CONTENTS**  
**(Continued)**

	<u>Page</u>
<b>FEDERAL AWARDS PROGRAMS:</b>	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....	46
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	47
Schedule of Expenditures of Federal Awards .....	49
Schedule of Federal Financial Assistance Provided to Sub-Recipients .....	50
Notes to the Schedule of Expenditures of Federal Awards .....	51
Schedule of Findings and Questioned Costs .....	52
<b>LETTER OF COMMENTS AND RECOMMENDATIONS .....</b>	<b>53</b>



Bruce A Rukkila, CPA, PC

Full Service Accounting Firm  
for the Western Upper Peninsula

310 Sheldon Avenue • Houghton MI 49931  
(906) 482-6601 • Fax: (906) 482-9046  
e-mail: help@brucerukkila.com  
www.bruцерukkila.com

### **INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Houghton-Portage Township School District  
Houghton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton-Portage Township School District as of and for the year then ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Houghton-Portage Township School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Houghton-Portage Township School District as of June 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 3, 2006 on our consideration of Houghton-Portage Township School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The management's discussion and analysis and budgetary comparison information on pages 6 through 12 and 33, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Houghton Portage Township School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Other Supplemental Financial Information listed in the table of contents and the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for the purposes of additional analysis and are not a required part of the general purpose financial statements of the Houghton Portage Township School District. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bruce A. Rukhila, CPA, PC*

Certified Public Accountants

October 3, 2006

**Houghton-Portage Township School District**  
**Management's Discussion and Analysis**  
**June 30, 2006**

---

This section of Houghton-Portage Township Schools annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

**Financial Highlights**

After three straight years without an increase in the state aid foundation allowance, 2005-06 saw an increase of \$175 per student, as well as an increase in the overall student count. As a result of the additional funds, a bus purchase that had been removed from the original budget due to financial constraints was bought. Additionally, a capital projects fund was established to ensure that monies will be available for maintenance expenditures in the near future.

**Overview of the Financial Statements**

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

*Statement of Net Assets and the Statement of Activities*

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

**Houghton-Portage Township School District**  
**Management's Discussion and Analysis**  
**June 30, 2006**

---

**Overview of the Financial Statements - Continued**

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Funds, School Food Service, Community Service and Athletic funds.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Retirement Fund meet this requirement

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the general fund.
- Other supplementary information provides detailed information about the General, Debt Service, Capital Projects, School Food Service, Community Service and Athletic Funds.

**Houghton-Portage Township School District**  
**Management's Discussion and Analysis**  
**June 30, 2006**

---

**Summary of Net Assets**

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current and other assets	\$ 2,190,908	\$ 2,419,482
Restricted investments	29,788	10,321
Capital assets - Net of accumulated depreciation	15,122,877	15,590,514
<b>Total Assets</b>	<u><u>\$17,343,573</u></u>	<u><u>\$ 18,020,317</u></u>
<b>Liabilities</b>		
Current liabilities	\$ 3,644,099	\$ 3,483,377
Long-term liabilities	16,426,849	17,237,688
<b>Total Liabilities</b>	<u><u>20,070,948</u></u>	<u><u>20,721,065</u></u>
<b>Net Assets</b>		
Invested in capital assets - net of related debt	(3,310,423)	(3,452,938)
Restricted	52,679	48,192
Unrestricted	530,369	703,998
<b>Total net assets</b>	<u><u>(2,727,375)</u></u>	<u><u>(2,700,748)</u></u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$17,343,573</u></u>	<u><u>\$ 18,020,317</u></u>

**Results of Operations in Governmental Activities**

	<u>2006</u>	<u>2005</u>
<b>Program Revenue:</b>		
Charges for services	\$ 438,585	\$ 454,747
Grants and contributions	1,082,103	1,117,378
<b>General Revenue:</b>		
Property taxes	2,363,555	2,290,204
State foundation allowance	7,645,683	7,265,101
Transfers	(93,438)	27,553
Special item - gain on sale of assets	2,100	1,866
Other	174,904	189,409
<b>Total Revenue</b>	<u><u>11,613,492</u></u>	<u><u>11,346,258</u></u>
<b>Functions/Program Expenses</b>		
Instruction	6,690,007	6,646,428
Support services	3,139,157	2,921,385
School service	529,829	498,813
Athletics	340,251	316,368
Community services	59,764	75,553
Interest on long-term debt	863,115	802,540
Other debt	17,996	14,432
<b>Total Expenses</b>	<u><u>11,640,119</u></u>	<u><u>11,275,519</u></u>
<b>Change in Net Assets</b>	<u><u>(26,627)</u></u>	<u><u>70,739</u></u>
<b>Net Assets - Beginning</b>	<u><u>(2,700,748)</u></u>	<u><u>(2,771,487)</u></u>
<b>Net Assets - Ending</b>	<u><u>\$(2,727,375)</u></u>	<u><u>\$ (2,700,748)</u></u>

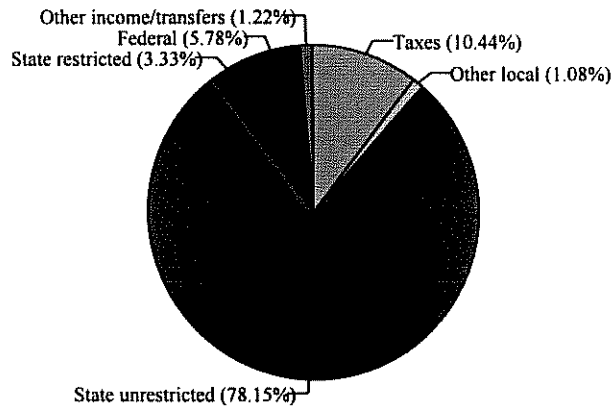


**Houghton-Portage Township School District  
Management's Discussion and Analysis  
June 30, 2006**

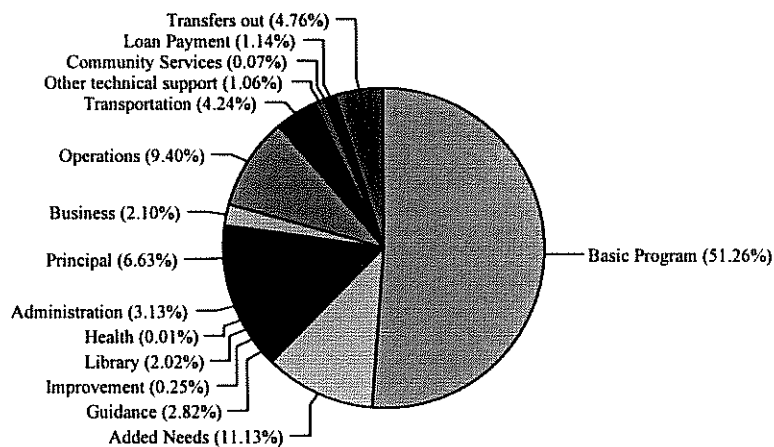
---

The following charts highlight the District's General Fund activities:

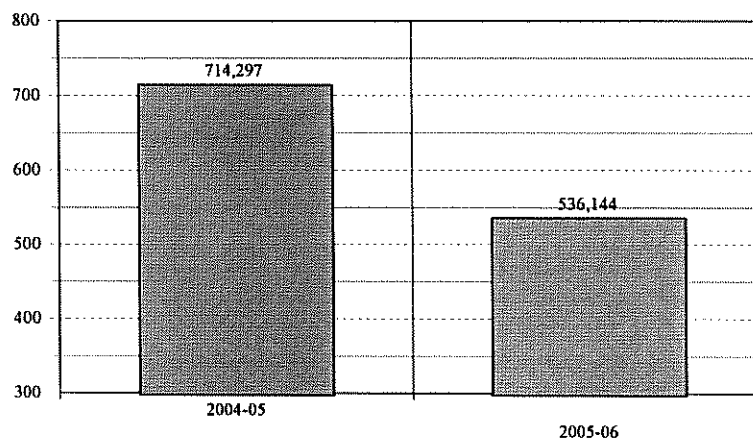
**2005-06 Revenues**



**2005-06 Expenditures**



**Fund Balance Comparison**



**Houghton-Portage Township School District**  
**Management's Discussion and Analysis**  
**June 30, 2006**

---

**Significant Transactions and Changes in Individual Funds**

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 9,782,741	\$ 9,537,417	\$ 245,324
Expenditures/Transfers	\$ 9,960,874	\$ 9,630,770	\$ 330,104
Fund Balance	\$ 536,144	\$ 714,277	\$ (178,133)
Debt Retirement Fund:			
Revenues/Transfers	\$ 1,472,832	\$ 1,436,366	\$ 36,466
Expenditures/Transfers	\$ 1,468,345	\$ 1,443,664	\$ 24,681
Fund Balance	\$ 49,354	\$ 44,867	\$ 4,487
School Service Fund:			
Revenues/Transfers	\$ 526,235	\$ 517,500	\$ 8,735
Expenditures/Transfers	\$ 529,829	\$ 498,813	\$ 31,016
Fund Balance	\$ 32,933	\$ 36,527	\$ (3,594)
Athletic Fund:			
Revenues/Transfers	\$ 320,770	\$ 306,827	\$ 13,943
Expenditures/Transfers	\$ 328,705	\$ 304,822	\$ 23,883
Fund Balance	\$ 16,223	\$ 24,158	\$ (7,935)
Community Service Fund:			
Revenues/Transfers	\$ 50,175	\$ 70,574	\$ (20,399)
Expenditures/Transfers	\$ 52,969	\$ 69,105	\$ (16,136)
Fund Balance	\$ 22,061	\$ 21,917	\$ 144
Capital Projects Fund:			
Revenues/Transfers	\$ 26,004	\$ 0	\$ 26,004
Expenditures/Transfers	\$ 0	\$ 0	\$ 0
Fund Balance	\$ 26,004	\$ 0	\$ 26,004

General Fund

The most significant change in the General Fund was an increase in the foundation allowance of \$175 per student, coupled with an increase of 24.7 FTE in the student count, resulting in an increase in state aid of \$380,000. This was offset to some extent by reductions in at-risk funding, Section 24 funds, and special education pool revenues, so that the overall increase in general fund revenues was \$245,324. Further, about \$67,000 of the increased state aid was for alternative ed students and had to be passed on to the educating district, the Copper Country Intermediate School district.

Although overall expenditures for salaries remained very close to 2004-05 levels due to reductions in personnel, expenditures for employee benefits increased nearly \$157,000.

Debt Service Fund

The Debt Service Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bond issue-related debt of the District. The increase in fund equity was the result of borrowing less than anticipated from the School Bond Loan Fund.

Food Service Fund

The Food Service program for the District has not required any contributions from the General Fund in recent years. The price per meal has not been increased since the 2001-02 school year.

**Houghton-Portage Township School District**  
**Management's Discussion and Analysis**  
**June 30, 2006**

---

**Significant Transactions and Changes in Individual Funds (Continued)**

**Athletic Fund**

The Athletic Fund is supported primarily by operating transfers from the General Fund. This fund also collects significant revenues in the form of gate receipts. The revenues and expenditures for this fund don't normally vary much from one year to the next with the exception of capital outlay. This fund is normally very close to break-even since the General Fund transfers only those funds necessary for the Athletic Fund to operate.

**Community Services Fund**

There was a reduction in program offerings in the 2005-06 school year. The summer kids camp was not offered this year since there was a suitable alternative offered by the BHK Child Development Board.

**Capital Projects Fund**

The Capital Projects Fund is used for the purpose of setting aside money from the General Fund for future capital purchases such as building repairs, improvements, and technology updates. By doing this, when a major capital purchase is needed, all the money does not have to come out of the General Fund at one time. There were no purchases for the 05-06 school year.

**General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year on July. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2006, the original budget was adopted on June 20, 2005. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. Therefore, the District amended its budget twice during the fiscal year.

	Original Budget	Final Budget	Actual	Variance with final budget	% Variance
Revenues	\$ 9,381,873	\$ 9,644,035	\$ 9,663,814	\$ 19,779	0.2%
Expenditures					
Instruction	\$ 6,190,150	\$ 6,205,077	\$ 6,214,463	\$ (9,386)	-0.2%
Supporting services	3,104,347	3,208,481	3,151,453	57,028	1.8%
Community services	9,306	8,401	6,795	1,606	23.6%
Total expenditures	\$ 9,303,803	\$ 9,421,959	\$ 9,372,711	\$ 49,248	0.5%
Other financing sources (uses)	\$ (328,488)	\$ (466,014)	\$ (471,336)	\$ 5,322	-1.1%

The original revenue budget of \$9,381,873 was increased to \$9,644,035 in anticipation of more state aid foundation monies.

Other financing sources (uses) increases represents primarily the establishment of the capital projects fund and additional tuition for students transferring to the alternative education program run by the intermediate school district.

**Houghton-Portage Township School District  
Management's Discussion and Analysis  
June 30, 2006**

---

**Capital Assets and Debt Administration**

**Capital Assets:** The district's purchases this year consisted of a new school bus and software. They disposed of two buses. Total purchases totaled \$91,342 and the disposals totaled \$56,250 resulting in a net increase of \$35,092.

The board is committed to maintaining up-to-date technology. Computers are replaced every four to five years. Approximately \$85,000 is budgeted annually to cover lease payments for technology replacement and upgrades.

The board's philosophy is to pay cash for capital outlay items whenever possible, in order to avoid the additional cost for interest associated with borrowing. The one major exception is for computer purchases. The district replaces computers all at once every 4 or 5 years in order to avoid problems with dissimilar technology components. This would result in too large an expenditure in any one year, so the computers are financed in order to spread the cost over several years' budgets.

The school maintains a fleet of 15 buses, 4 of which are used as spares. In our experience a bus has a useable life of 10 to 12 years. It is a goal of the Board to replace one bus per year in order to maintain a safe fleet.

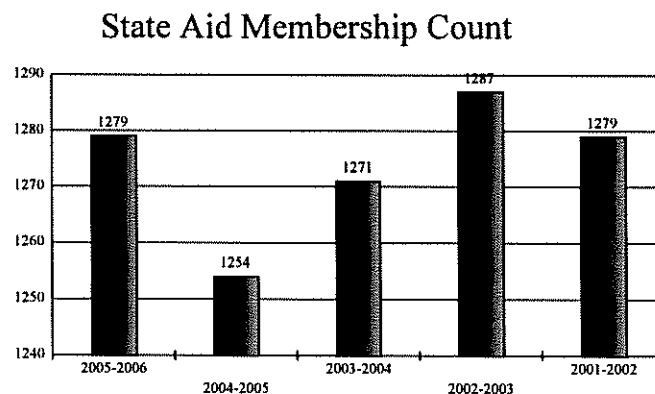
Additional information on the District's capital assets can be found on page 24 of this report.

**Long-term Debt:** At the end of the current fiscal year, the District's total debt was \$17,231,904. This total amount is backed by the full faith and credit of the District. The District's total debt was decreased by \$788,061.

Additional information on the District's long-term debt can be found on page 25 of this report.

**Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations**

The graph depicts 1.95% increase in the number of students enrolled from the previous year, using the State Aid Membership Count.



The school aid foundation for 2006-07 has been set at \$7,085 per student, an increase of \$210 per student (3%).

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Houghton-Portage Township School District.

**HOUGHTON-PORTAGE SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**June 30, 2006**

**ASSETS:**

**CURRENT ASSETS:**

Cash and cash equivalents	\$ 101,732
Investments	276,309
Taxes receivable	147,650
Accounts receivable	25,122
Due from student groups	79,500
Due from other governmental units	1,527,688
Prepaid expenses	5,201
Inventories	27,706
TOTAL CURRENT ASSETS	<u>2,190,908</u>

**NONCURRENT ASSETS:**

Restricted cash	27,334
Restricted investments	2,454
Capital assets	21,318,530
Less: Accumulated depreciation	<u>(6,195,653)</u>
TOTAL NONCURRENT ASSETS	<u>15,152,665</u>
TOTAL ASSETS	<u>\$ 17,343,573</u>

**LIABILITIES:**

**CURRENT LIABILITIES:**

Accounts payable	\$ 64,523
Accrued expenses	239,009
Accrued interest	1,201,396
Other current liabilities	1,107
Due to governmental units	26,115
Short-term note payable	1,200,000
Installment loans payable, due within one year	80,000
Bonds payable within one year	824,726
Deferred revenue	7,223
TOTAL CURRENT LIABILITIES	<u>3,644,099</u>

**NONCURRENT LIABILITIES:**

Bonds payable, due in more than one year	12,640,178
Compensated absences	99,671
School bond loan fund payable	<u>3,687,000</u>
TOTAL NONCURRENT LIABILITIES	<u>16,426,849</u>
TOTAL LIABILITIES	<u>20,070,948</u>

**NET ASSETS:**

Invested in capital assets, net of related debt	(3,310,423)
Restricted for debt service	49,354
Reserved	700
Designated	2,625
Unreserved	530,369
TOTAL NET ASSETS	<u>(2,727,375)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,343,573</u>

The accompanying notes to financial statements are an integral part of this statement.

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2006**

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenues</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants and</u>	<u>Net (Expense)</u>
			<u>Contributions</u>	<u>Revenue and</u>
				<u>Changes in Net</u>
				<u>Assets</u>
Government Activities:				
Instruction and instructional support	\$ 6,690,007	\$ 18,235	\$ 909,382	\$ (5,762,390)
Support services	3,139,157	22,475	-	(3,116,682)
School service	529,829	276,636	155,440	(97,753)
Athletics	340,251	71,293	11,085	(257,873)
Community services	59,764	49,946	-	(9,818)
Interest on long-term debt	863,115	-	-	(863,115)
Other debt service	17,996	-	6,195	(11,801)
Total Governmental Activities	<u>\$ 11,640,119</u>	<u>\$ 438,585</u>	<u>\$ 1,082,102</u>	<u>(10,119,432)</u>
General Revenues:				
Taxes				
Property taxes, levied for general operations:				1,015,647
Property taxes, levied for debt service				1,347,908
Other taxes				9,873
State school aid - unrestricted				7,645,683
Interest and investment earnings				62,966
Other				102,066
Transfers				(93,438)
Special item - gain on sale of assets				2,100
Total general revenues, transfers, and special items				<u>10,092,805</u>
Change in Net Assets				(26,627)
Net Assets - Beginning				<u>(2,700,748)</u>
Net Assets - Ending				<u>\$ (2,727,375)</u>

The accompanying notes to financial statements are an integral part of this statement.

**HOUGHTON-PORTRAGE TOWNSHIP SCHOOL DISTRICT**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**June 30, 2006**

	<u>General</u>	<u>Debt Service Fund</u>	<u>Other Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 35,508	\$ -	\$ 66,224	\$ 101,732
Investments	276,309	-	-	276,309
Taxes receivable	73,233	74,417	-	147,650
Accounts receivable	458	-	24,664	25,122
Due from other governmental units	1,509,490	-	18,198	1,527,688
Due from other funds	89,069	-	8,749	97,818
Due from student groups	79,500	-	-	79,500
Inventory	-	-	27,706	27,706
Prepaid expenses	5,201	-	-	5,201
Restricted cash	-	27,334	-	27,334
Restricted investments	-	2,454	-	2,454
<b>TOTAL ASSETS</b>	<b><u>\$ 2,068,768</u></b>	<b><u>\$ 104,205</u></b>	<b><u>\$ 145,541</u></b>	<b><u>\$ 2,318,514</u></b>
<b>LIABILITIES:</b>				
Accounts payable	\$ 54,353	\$ -	\$ 10,170	\$ 64,523
Accrued expenses	236,699	-	2,310	239,009
Due to other funds	8,234	54,851	34,733	97,818
Due to governmental unit	26,115	-	-	26,115
Short-term notes payable	1,200,000	-	-	1,200,000
Deferred revenue	7,223	-	-	7,223
Other liabilities	-	-	1,107	1,107
<b>TOTAL LIABILITIES</b>	<b><u>1,532,624</u></b>	<b><u>54,851</u></b>	<b><u>48,320</u></b>	<b><u>1,635,795</u></b>
<b>FUND BALANCES:</b>				
Reserved	700	49,354	-	50,054
Designated	2,625	-	-	2,625
Unreserved	532,819	-	97,221	630,040
<b>TOTAL FUND BALANCES</b>	<b><u>536,144</u></b>	<b><u>49,354</u></b>	<b><u>97,221</u></b>	<b><u>682,719</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 2,068,768</u></b>	<b><u>\$ 104,205</u></b>	<b><u>\$ 145,541</u></b>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	15,122,877
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(17,331,575)
Accrued interest is not included as a liability in governmental funds	<u>(1,201,396)</u>
Net assets of governmental activities	<u>\$ 2,727,375</u>

The accompanying notes to the financial statements are an integral part of this statement.

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

	General Fund	Debt Service Fund	Other Non-major Governmental Funds	Totals
<b>Revenues</b>				
Local sources	\$ 1,126,639	\$ 1,375,637	\$ 503,744	\$ 3,006,020
State sources	7,971,413	6,195	13,932	7,991,540
Federal sources	565,762	-	141,508	707,270
Total revenues	9,663,814	1,381,832	659,184	11,704,830
<b>Expenditures</b>				
Instruction	6,214,463	-	-	6,214,463
Supporting services	3,151,453	-	-	3,151,453
School service	-	-	529,829	529,829
Athletics	-	-	328,705	328,705
Community services	6,795	-	52,969	59,764
Debt Service	-	1,468,345	-	1,468,345
Total expenditures	9,372,711	1,468,345	911,503	11,752,559
Excess (deficiency) of revenue over expenditures	291,103	(86,513)	(252,319)	(47,729)
<b>Other Financing Sources (Uses)</b>				
Operating transfers in (out)	(264,000)	-	264,000	-
Transfers from other districts	116,827	-	-	116,827
Transfers to other districts	(210,265)	-	-	(210,265)
Loan payments	(113,898)	-	-	(113,898)
School Bond Loan Fund proceeds	-	91,000	-	91,000
Total other financing sources (uses)	(471,336)	91,000	264,000	(116,336)
<b>Special Items</b>				
Proceeds from sale of capital assets	2,100	-	-	2,100
Net Change in Fund Balance	(178,133)	4,487	11,681	(161,965)
Fund Balances - Beginning of year	714,277	44,867	85,540	
Fund Balances - End of year	\$ 536,144	\$ 49,354	\$ 97,221	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	(467,637)
Accrued expenses are recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(185,087)
Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds	(91,000)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	879,062
Change in net assets of governmental activities	\$ (26,627)

The accompanying notes to financial statements are an integral part of this statement.



**HOUGHTON-PORTAGE TOWNSHIP SCHOOLS**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**JUNE 30, 2006**

	Fiduciary Fund
ASSETS	
Cash	\$ 300,610
TOTAL ASSETS	<u>\$ 300,610</u>
LIABILITIES	
Due to general fund	\$ 79,500
Due to student groups	74,114
Scholarship funds	146,996
TOTAL LIABILITIES	<u>\$ 300,610</u>

The accompanying notes to the financial statements are an integral part of this statement.

# HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS - June 30, 2006

---

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Houghton-Portage Township School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

#### REPORTING ENTITY

The Houghton-Portage Township School District (the "District") is governed by the Houghton-Portage Township School Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United State of America. Board members are elected by the public and have decision-making authority, the power to designated management, the ability to significantly influence operations, and the primary accountability for fiscal manners. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

Excluded from the reporting entity:

Houghton-Portage Township Schools Foundation, Inc.

The potential component unit has a separately elected board and provides assistance with development, implementation, and/or maintenance of educational programs which significantly contribute to the education and personal growth of Houghton-Portage Township School students. The foundation is excluded from the reporting entity because the school does not have the ability to exercise influence or control over the operations, approve budgets, or provide funding.

#### GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted for debt service; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

---

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does allocate indirect costs.

The government-wide focus is more on the sustain ability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Debt Retirement Fund - The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Other non-major funds:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service, Athletic Activities, and Community Service Activities.

Capital Projects Fund - The Capital Projects Fund is used to account for all revenues and expenditures associated with the School District's capital structures.

# HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS - June 30, 2006

---

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fiduciary Funds:

The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities).

The Scholarship Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals or private organizations designated for scholarship purposes. The Fund distributes the assets according to scholarship requirements.

Fiduciary funds are not included in the government-wide statements.

#### Accrual Method

The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

#### Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

#### State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30<sup>th</sup> is reported as due from other governmental units.

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

---

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

*Other Accounting Policies*

Cash and cash equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorizes the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, banker's acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes

Property taxes levied by the District are collected by the City of Houghton and Portage Township and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund - Non-homestead	17.9964
Debt service fund - Homestead and non-homestead	8.89

Receivables and Payables

Activity between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

---

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Inventory

General Fund utilizes the purchase method of recording inventories and supplies. Inventory in the School District's School Service Fund consists of food, a la carte items, supplies, and USDA commodities totaling \$27,706. The School District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. Inventory is valued at cost.

Capital Assets

Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Accrued Benefits

The liabilities for accrued benefits reported in the district-wide statements in the amount of \$99,671, consisted of sick leave and vacation balances.

Accrued vacation time is payable upon termination of employment or retirement. Accrued sick leave is not paid to employees upon termination of employment or retirement, thus there is not vested liability for unused sick leave.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

# HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS - June 30, 2006

---

### NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
7. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

### NOTE C - CASH AND INVESTMENTS

As of June 30, 2006 the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)	Rating	%
MILAF - MIMAX	<u>\$ 278,763</u>	.0837	AAA	<u>100.00%</u>

Portfolio weighted average maturity .0837

1 day maturity equals 0.0027, one year equals 1.00

**Interest Rate Risk** - In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit Risk** - State law limits investments in commercial paper corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of Credit Risk** - The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial Credit Risk - Deposits** - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$512,328 of the District's bank balance of \$828,564 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

**NOTE C - CASH AND INVESTMENTS (Continued)**

Custodial Credit Risk - Investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

At year-end, the School District's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the School District is as follows:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 101,732	\$ 0	\$ 101,732
Restricted cash	27,334	300,610	327,944
Total cash and cash equivalents	129,066	300,610	429,676
Investments	276,309	0	276,309
Restricted investments	2,454	0	2,454
Total investments	278,763	0	278,763
Total deposits and investments	\$ 407,829	\$ 300,610	\$ 708,439

**NOTE D - FIXED ASSETS**

Fixed Asset activity of the School District's governmental activities was as follows:

	Balance 06/30/05	Additions	Subtractions and Adjustments	Balance 06/30/06
Land	\$ 1,323,619	\$ 0	\$ 0	\$ 1,323,619
Fixed assets being depreciated:				
Building and additions	17,842,816	0	0	17,842,816
Improvements other than building	111,413	0	0	111,413
Equipment and furniture	815,249	30,336	0	845,585
Vehicles other than buses	174,814	0	0	174,814
School buses	704,921	61,006	56,250	709,677
Other assets	310,605	0	0	310,605
Subtotal	19,959,818	91,342	56,250	19,994,910
Accumulated depreciation:				
Building and additions	4,349,847	358,259	0	4,708,106
Improvements other than building	47,115	5,572	0	52,687
Equipment and furniture	448,438	109,731	0	558,169
Vehicles other than buses	128,203	14,809	0	143,012
School buses	523,445	56,381	56,250	523,576
Other assets	195,875	14,228	0	210,103
Subtotal	5,692,923	558,980	56,250	6,195,653
Net capital assets being depreciated	14,266,895	(467,638)	0	13,799,257
Net capital assets	\$ 15,590,514	\$ (467,638)	\$ 0	\$ 15,122,876



**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

**NOTE D - FIXED ASSETS (Continued)**

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Athletic	\$ 11,546
Instruction	468,388
Operations	18,346
Technology	2,528
Transportation	58,172
Total governmental activities	<u>\$ 558,980</u>

**NOTE E - RECEIVABLES**

Receivables from governmental units at June 30, 2006 consist of the following:

	General Fund	School Service	Total
State aid	\$ 1,495,788	\$ 0	\$ 1,495,788
Federal revenue	13,702	18,198	31,900
	<u>\$ 1,509,490</u>	<u>\$ 72,792</u>	<u>\$ 1,527,688</u>

**NOTE F - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2006 are as follows:

Fund	Inter-fund Receivable	Fund	Inter-fund Payable
General	\$ 168,569	General	\$ 8,234
School Service	0	School Service	28,518
Athletic	0	Athletic	6,215
Community Service	8,749	Community Service	0
Trust & Agency	0	Trust & Agency	79,500
Debt Retirement	0	Debt Retirement	54,851
TOTAL	<u>\$ 177,318</u>	TOTAL	<u>\$ 177,318</u>

Fund	Transfer In	Fund	Transfer Out
General	\$ 0	General	\$ 264,000
Athletic	238,000	Athletic	0
Capital Projects	26,000	Capital Projects	0
TOTAL	<u>\$ 264,000</u>	TOTAL	<u>\$ 264,000</u>

**NOTE G - SHORT-TERM NOTE PAYABLE**

On August 19, 2005, the School District obtained a one year operating loan from the School Loan Fund in the amount of \$1,200,000 with an interest rate of 2.92%. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures. Interest is due semi-annually and principal is due at maturity on August 18, 2006.

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

---

**NOTE H - LONG TERM DEBT**

**Bonds Payable 1991 Issue**

On August 29, 1991, the School District issued \$435,180 of unlimited tax general obligation bonds to advance refund \$435,077 of School Bond Loan Fund loans.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 4.6% to 7.1% per annum. Interest payments started on May 15, 1992, and are payable semiannually on May 15, and November 15 as indicated. The bonds are to be both term and serial.

Bonds maturing on or after May 15, 2002, shall be subject to redemption prior to maturity at the option of the School Board in such order as the School Board may determine and by lot within any maturity, on any May 15 or November 15 occurring on or after May 15, 2001, at par.

<u>Fiscal Year</u>	<u>May 15 Interest</u>	<u>May 15 Principal</u>	<u>Total</u>
2006-2007	\$ 49,747	\$ 25,252	\$ 74,999
2007-2008	82,301	37,699	120,000
2008-2009	85,124	34,876	120,000
2009-2010	123,921	46,079	170,000
2010-2011	41,097	13,903	55,000
	<u>\$ 382,190</u>	<u>\$ 157,809</u>	<u>\$ 539,999</u>

**1998 Advance Refunding**

On March 1, 1998, the District issued \$8,815,000 of general obligation - unlimited tax bonds to advance refund \$8,250,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds were used for the refunding of the 1996 Building and Site Bonds dated June 6, 1996.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 3.80% to 5.00% per annum. Interest payments started on May 1, 1998, and are payable semiannually on May 1, and November 1, as indicated. The bonds are to be both term and serial.

The Bonds, or \$5,000 portions thereof, maturing on or after May 1, 2009 shall be subject to redemption prior to maturity, at the option of the Issuer in such order as the Issuer may determine and by lot within any maturity, on any interest payment date occurring on or after May 1, 2008, at par and accrued interest to the date fixed for redemption.

The Bonds due May 1, 2021 and May 1, 2026, are term bonds subject to mandatory redemption in part.

<u>Fiscal Year</u>	<u>November 1 Interest</u>	<u>May 1 Interest</u>	<u>May 1 Principal</u>	<u>Total</u>
2006-2007	\$ 197,699	\$ 197,699	\$ 280,000	\$ 675,398
2007-2008	191,539	191,539	280,000	663,078
2008-2009	185,239	185,239	280,000	650,478
2009-2010	178,939	178,939	280,000	637,878
2010-2011	172,499	172,499	305,000	649,998
2011-2012	165,331	165,331	300,000	630,662
2012-2013	158,131	158,131	300,000	616,262
2013-2018	653,738	653,738	2,230,000	3,537,476
2018-2023	355,500	355,500	2,410,000	3,121,000
2023-2026	70,125	70,125	1,405,000	1,545,250
	<u>\$ 2,328,740</u>	<u>\$ 2,328,740</u>	<u>\$ 8,070,000</u>	<u>\$ 12,727,480</u>

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

**NOTE H - LONG TERM DEBT (Continued)**

2001 Energy Conservation Improvement Bond

On June 25, 2001, the District issued \$310,000 of Energy Conservation Improvement Bonds. The proceeds of the bonds were used for roof repairs and other improvements that would conserve energy.

The bond issue matures as indicated below with interest not to exceed 5% per annum. Interest payments started on November 1, 2001, and are payable semiannually on May 1, and November 1, as indicated. The bonds are to be both term and serial.

Fiscal Year	November 1 Interest	May 1 Interest	May 1 Principal	Total
2006-2007	\$ 4,127	\$ 4,127	\$ 30,000	\$ 38,254
2007-2008	3,468	3,468	35,000	41,936
2008-2009	2,680	2,680	35,000	40,360
2009-2010	1,857	1,857	35,000	38,714
2010-2011	1,000	1,000	40,000	42,000
	<u>\$ 13,132</u>	<u>\$ 13,132</u>	<u>\$ 175,000</u>	<u>\$ 201,264</u>

2002 Advance Refunding

On January 21, 2002, the District issued \$6,715,000 of general obligation -unlimited tax bonds to advance refund \$6,485,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds were used to pay certain costs of issuance relating to the refunding of the 1992 Refunding Bonds dated January 1, 1993.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 2.85% to 4.50% per annum. Interest payments started on November 1, 2002, and are payable semiannually on May 1, and November 1, as indicated. The bonds are to be both term and serial.

The Bonds, or \$5,000 portions thereof, maturing on or after May 1, 2013 shall be subject to redemption prior to maturity, at the option of the Issuer in such order as the Issuer may determine and by lot within any maturity, on any interest payment date occurring on or after May 1, 2012, at par and accrued interest to the date fixed for redemption.

Fiscal Year	November 1 Interest	May 1 Interest	May 1 Principal	Total
2006-2007	\$ 103,587	\$ 103,587	\$ 485,000	\$ 692,174
2007-2008	94,979	94,979	485,000	674,958
2008-2009	85,885	85,885	515,000	686,770
2009-2010	75,714	75,714	515,000	666,428
2010-2011	65,285	65,285	640,000	770,570
2011-2012	52,005	52,005	740,000	844,010
2012-2013	36,280	36,280	790,000	862,560
2013-2014	18,900	18,900	840,000	877,800
	<u>\$ 532,635</u>	<u>\$ 532,635</u>	<u>\$ 5,010,000</u>	<u>\$ 6,075,270</u>

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

---

**NOTE H - LONG TERM DEBT (Continued)**

Durant Bond

As part of the Durant settlement non plaintiff school districts entitled to receive amounts greater than \$75,000 were offered a bonding option. The School District participated in the bonding option and on November 24, 1998 issued \$88,227 of school improvement bonds for the purpose of purchasing various supplies and equipment for technological improvements to the District.

The bond issue matures as indicated below with interest not to exceed 8% per annum. Interest payments began on May 15, 1999 and are payable annually thereafter on May 15 as indicated. The annual payments will be appropriated by the State of Michigan and will be the only revenue source for making the annual debt service payment on the bonds. The District is under no obligation to make the annual payment in any year the legislature fails to appropriate the proper amount of funds.

The bond is not subject to redemption prior to maturity and the School District will not issue any other bonds or obligations for the purpose of refunding this bond. Even though the State of Michigan will be appropriating funds to pay the principal and interest, the bond is the obligation of the School District, not the State.

<u>Fiscal Year</u>	<u>May 15 Interest</u>	<u>May 15 Principal</u>	<u>Total</u>
2006-2007	\$ 1,722	\$ 4,472	\$ 6,194
2007-2008	1,509	4,687	6,196
2008-2009	1,286	4,910	6,196
2009-2010	1,052	5,144	6,196
2010-2011	807	5,389	6,196
2011-2012	7,658	21,579	29,237
2012-2013	282	5,912	6,194
	<u>\$ 14,316</u>	<u>\$ 52,093</u>	<u>\$ 66,409</u>

School Bond Loan Fund

During the year ended June 30, 2006, the School District borrowed from the Michigan School Bond Loan Fund for the purpose of making principal and interest payments on the above bond issues. In accordance with Act 108, Public Acts of Michigan, 1961, as amended, the State of Michigan can lend the School District funds to make debt payments if, for any reason, the district is unable to pay the principal and interest on bonds when due. During the year ended June 30, 2006 the School District borrowed \$91,000 from the School Bond Loan Fund to cover debt payments on bond issues. At June 30, 2006, the balance due to the School Bond Loan Fund was \$4,780,373 including accrued interest of \$1,093,373.

The loans will be repaid from taxes levied for that purpose. Repayment will commence subsequent to the repayment of the School District's bond issues. However, repayments shall be made earlier if taxes levied and collected in any particular year exceed those required to repay the bonds. The interest rate associated with loans from the School Bond Loan Fund is established by the state at the time of borrowing and remains fixed for that specific borrowing until repayment. The rate at June 30, 2006 was 4.5%.

Other Long-Term Debt

The School District has installment note payable for computer equipment dated June 30, 2003, original issue amount of \$320,000 with an interest rate of 3.10%. As of June 30, 2006, the aggregate maturities of loans payable are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	<u>\$ 80,000</u>	<u>\$ 2,480</u>	<u>\$ 82,480</u>

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

**NOTE H - LONG TERM DEBT (Continued)**

The following is a summary of the changes in the general long-term debt for the year ended June 30, 2006:

	Balance June 30, 2005	Increase	Decrease	Balance June 30, 2006	Current Portion
Bonds	\$ 14,260,066	\$ -	\$ 795,162	\$ 13,464,904	\$ 824,725
Notes Payable	163,899	-	83,899	80,000	80,000
School Bond Loan	3,596,000	91,000	-	3,687,000	-
	<u>18,019,965</u>	<u>91,000</u>	<u>879,061</u>	<u>17,231,904</u>	<u>\$ 904,725</u>
SBLF Interest	908,634	184,739	-	1,093,373	
Accrued Interest	114,832	-	6,809	108,023	
Accrued Benefits	92,514	7,157	-	99,671	
TOTAL	<u>\$ 19,135,945</u>	<u>\$ 282,896</u>	<u>\$ 885,870</u>	<u>\$ 18,532,971</u>	

As of June 30, 2006, the aggregate maturities of long-term debt for the next ten years and thereafter are as follows:

Fiscal Year	Principal	Interest	Total
2006-2007	904,724	664,775	1,569,499
2007-2008	842,386	663,782	1,506,168
2008-2009	869,786	634,018	1,503,804
2009-2010	881,225	637,993	1,519,218
2010-2011	1,004,292	519,472	1,523,764
2011-2012	1,061,579	442,330	1,503,909
2012-2013	1,095,912	389,104	1,485,016
2013-2018	3,070,000	1,345,276	4,415,276
2018-2023	2,410,000	711,000	3,121,000
2023-2026	5,092,000	1,233,623	6,325,623
	<u>\$ 17,231,904</u>	<u>\$ 7,241,373</u>	<u>\$ 24,473,277</u>

**NOTE I - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least 10 years of credited service; or after attaining age 60 with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

---

**NOTE I - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)**

The MPSERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by the state statute to contribute 14.87% of covered compensation through September 30, 2005 and 16.34% of covered compensation to the Plan for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2006 was \$846,824 and equal the required contributions.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among PERS and employers. The MPSERS does not make separate measurements of assets and pension benefit obligations for individual districts.

As of September 30, 2005 for the MPSERS as a whole, the actuarial accrued liability was \$46.3 billion. The pension plan net assets were \$39 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 84.88%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2005 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPSERS' September 30, 2005 annual report.

The State of Michigan is responsible for the payment of retirement benefits.

**NOTE J - FUND BALANCE - DESIGNATED**

A Designated Fund Balance has been established to account for those resources currently available for use, but expendable for specified purposes. The School Board has designated \$2,625 for the purpose of funding a catastrophic illness program for all employees.

The Debt Service fund balance is designated for retirement of debt. According to generally accepted accounting principles, designated fund balances are reported as part of the unreserved fund balance.

**NOTE K - FUND BALANCE - RESERVED**

The Reserved Fund Balance, in the General Fund, represents contributions toward the purchase of a piano for the Alumni Auditorium in the amount of \$700.

**NOTE L - STATE FOUNDATION REVENUE**

Effective as of fiscal year 1994-95 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. The foundation allowance is based on the average of pupil membership counts taken in February and October of the previous year.

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2006**

---

**NOTE L - STATE FOUNDATION REVENUE (Continued)**

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 17.9964 mills for non-homestead property taxes. The State revenue is recognized during the foundation period (currently the fiscal year).

2005-06 Foundation		\$	6,875.00
Less Local Support:			
Non-Homestead Tax Value	56,151,797		
Multiplied by mills	18.0		
Total Local Support	1,010,732		
Divided by General Education K-12 membership	1,260.19		
Calculated Local Support			(802.05)
2005-06 Foundation Grant Allowance Per Pupil		\$	<u>6,072.95</u>

**NOTE M - CONTINGENT LIABILITIES**

Risk Pool

Houghton-Portage Township School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Houghton-Portage Township School District joined together with other school districts currently operating a common risk management and insurance program. Houghton-Portage Township School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Houghton-Portage Township School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2006, which can be obtained through the school district.

**NOTE N - SUBSEQUENT EVENT**

School Loan Fund: On August 18, 2006, the School District entered into a note with the School Loan Fund. The principal amount and the interest rate on the Note shall not exceed \$1,200,000 and 3.68% per annum, respectively. The note matures on August 20, 2007. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures.

**REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION**



**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

**For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Local sources	\$ 1,130,300	\$ 1,130,805	\$ 1,126,639	\$ (4,166)
State sources	7,710,690	7,947,118	7,971,413	24,295
Federal sources	540,883	566,112	565,762	(350)
TOTAL REVENUE	9,381,873	9,644,035	9,663,814	19,779
EXPENDITURES:				
Instruction	6,190,150	6,205,077	6,214,463	(9,386)
Supporting services	3,104,347	3,208,481	3,151,453	57,028
Community services	9,306	8,401	6,795	1,606
TOTAL EXPENDITURES	9,303,803	9,421,959	9,372,711	49,248
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	78,070	222,076	291,103	69,027
OTHER FINANCING SOURCES (USES)				
Incoming transfers - other schools	182,000	130,000	116,827	(13,173)
Operating transfers out	(238,000)	(264,000)	(264,000)	-
Other outgoing transfers	(155,000)	(218,100)	(210,265)	7,835
Principle and interest payments	(117,488)	(113,914)	(113,898)	16
Total other financing sources (uses)	(328,488)	(466,014)	(471,336)	(5,322)
SPECIAL ITEMS				
Proceeds from sale of capital assets	-	-	2,100	2,100
NET CHANGE IN FUND BALANCE	\$ (250,418)	\$ (243,938)	(178,133)	\$ 65,805
FUND BALANCE - BEGINNING OF YEAR			714,277	
FUND BALANCE - END OF YEAR			\$ 536,144	

**OTHER SUPPLEMENTAL FINANCIAL INFORMATION**

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Local sources:				
Taxes	\$ 1,015,805	\$ 1,020,899	\$ 5,094	\$ 1,018,651
Investment revenue	38,000	38,713	713	22,833
Tuition	20,000	18,235	(1,765)	24,218
Rentals	25,000	22,475	(2,525)	25,224
Contributions	23,000	17,890	(5,110)	13,581
Miscellaneous	9,000	8,427	(573)	15,374
Total local sources	<u>1,130,805</u>	<u>1,126,639</u>	<u>(4,166)</u>	<u>1,119,881</u>
State sources:				
Unrestricted grants:				
State aid	<u>7,643,623</u>	<u>7,645,683</u>	<u>2,060</u>	<u>7,265,101</u>
Restricted grants:				
Grants	24,245	31,030	6,785	70,744
At-risk	128,223	128,281	58	156,344
Special education	<u>151,027</u>	<u>166,419</u>	<u>15,392</u>	<u>151,027</u>
Total restricted grants	<u>303,495</u>	<u>325,730</u>	<u>22,235</u>	<u>378,115</u>
Total state sources	<u>7,947,118</u>	<u>7,971,413</u>	<u>24,295</u>	<u>7,643,216</u>
Federal sources:				
Title I	231,865	230,625	(1,240)	226,551
Title V	1,832	1,832	-	3,007
Title II	107,415	107,758	343	112,946
Even start	225,000	225,000	-	225,000
Homeland security grant	<u>-</u>	<u>547</u>	<u>547</u>	<u>-</u>
Total federal sources	<u>566,112</u>	<u>565,762</u>	<u>(350)</u>	<u>567,504</u>
TOTAL REVENUES	<u>9,644,035</u>	<u>9,663,814</u>	<u>19,779</u>	<u>9,330,601</u>
EXPENDITURES:				
Instruction:				
Basic program:				
Elementary School	2,135,015	2,139,810	(4,795)	1,969,366
Middle School	1,001,299	974,683	26,616	1,127,922
High School	<u>1,968,788</u>	<u>1,991,314</u>	<u>(22,526)</u>	<u>1,962,612</u>
Total basic program	<u>5,105,102</u>	<u>5,105,807</u>	<u>(705)</u>	<u>5,059,900</u>
Added needs:				
Special education - Elementary School	126,363	123,125	3,238	120,145
Special education - Middle School	116,607	115,923	684	112,545
Special education - High School	247,041	256,740	(9,699)	267,540
Compensatory education	223,075	225,726	(2,651)	220,037
At-risk	161,889	162,142	(253)	158,503
Technical skills training	<u>225,000</u>	<u>225,000</u>	<u>-</u>	<u>219,153</u>
Total added needs	<u>1,099,975</u>	<u>1,108,656</u>	<u>(8,681)</u>	<u>1,097,923</u>
Total instruction	<u>6,205,077</u>	<u>6,214,463</u>	<u>(9,386)</u>	<u>6,157,823</u>

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES (Continued)**  
**Year Ended June 30, 2006**

Supporting services:	BUDGET	ACTUAL	VARIANCE	2005
Pupil:				
Guidance	279,608	280,504	(896)	259,786
Health	1,104	856	248	606
Total pupil	280,712	281,360	(648)	260,392
Instructional staff:				
Improvement of instruction	24,968	24,576	392	24,890
Library	206,713	201,583	5,130	199,461
Total instructional staff	231,681	226,159	5,522	224,351
General administration:				
Board of education	116,448	119,171	(2,723)	102,564
Executive administration	194,702	192,314	2,388	183,195
Total general administration	311,150	311,485	(335)	285,759
School administration:				
Office of principal - Elementary School	220,481	219,431	1,050	212,141
Office of principal - Middle School	150,395	149,412	983	87,629
Office of principal - High School	292,405	291,267	1,138	285,756
Total school administration	663,281	660,110	3,171	585,526
Business-fiscal services	219,262	208,690	10,572	197,698
Operation & maintenance	960,820	936,157	24,663	923,341
Pupil transportation	428,858	422,005	6,853	401,706
Other technical support	112,717	105,487	7,230	76,215
Total supporting services	3,208,481	3,151,453	57,028	2,954,988
Community services	8,401	6,795	1,606	6,448
<b>TOTAL EXPENDITURES</b>	<b>9,421,959</b>	<b>9,372,711</b>	<b>49,248</b>	<b>9,119,259</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>222,076</b>	<b>291,103</b>	<b>69,027</b>	<b>211,342</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Incoming transfers - other schools	130,000	116,827	(13,173)	183,579
Other financing sources	-	-	-	21,371
Operating transfer out	(264,000)	(264,000)	-	(238,000)
Other outgoing transfers	(218,100)	(210,265)	7,835	(156,026)
Loan payments	(113,914)	(113,898)	16	(117,485)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(466,014)</b>	<b>(471,336)</b>	<b>(5,322)</b>	<b>(306,561)</b>
<b>SPECIAL ITEMS:</b>				
Sale of fixed assets	-	2,100	2,100	1,866

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES (Continued)**  
**Year Ended June 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (243,938)</u>	(178,133)	<u>\$ 65,805</u>	(93,353)
FUND BALANCE, BEGINNING OF YEAR		<u>714,277</u>		<u>807,630</u>
FUND BALANCE, END OF YEAR		<u>\$ 536,144</u>		<u>\$ 714,277</u>

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**DEBT SERVICE FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Local sources:				
Taxes:				
Current taxes	\$ 1,353,823	\$ 1,347,908	\$ (5,915)	\$ 1,279,399
Other taxes	13,150	13,594	444	6,427
Penalties & interest on delinquent taxes	4,230	4,120	(110)	3,496
Total taxes	1,371,203	1,365,622	(5,581)	1,289,322
Other:				
State grant	6,195	6,195	-	-
Miscellaneous	13,500	10,015	(3,485)	18,644
TOTAL REVENUES	1,390,898	1,381,832	(9,066)	1,307,966
EXPENDITURES:				
Interest on bonds	685,186	685,186	-	678,556
Redemption of bond principle	765,163	765,163	-	750,676
Tax collection fees	5,225	5,161	64	5,100
Other expense	10,975	12,835	(1,860)	9,332
TOTAL EXPENDITURES	1,466,549	1,468,345	(1,796)	1,443,664
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(75,651)	(86,513)	(10,862)	(135,698)
OTHER FINANCING SOURCES (USES)				
School Bond Loan Fund proceeds	91,000	91,000	-	128,400
TOTAL OTHER FINANCING SOURCES (USES)	91,000	91,000	-	128,400
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 15,349	4,487	\$ (10,862)	(7,298)
FUND BALANCE, BEGINNING OF YEAR		44,867		52,165
FUND BALANCE, END OF YEAR		\$ 49,354		\$ 44,867

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**June 30, 2006**

					Totals	
	School Service	Athletic	Capital Project	Community Services	Memorandum Only	
					2006	2005
ASSETS AND OTHER DEBITS						
Cash	\$ 10,486	\$ 16,032	\$ 26,004	\$ 13,702	\$ 66,224	\$ 38,563
Receivables	15,266	9,159	-	239	24,664	14,122
Due from other funds	-	-	-	8,749	8,749	22,129
Due from governmental units	18,198	-	-	-	18,198	17,238
Inventory	27,706	-	-	-	27,706	29,842
<b>TOTAL ASSETS</b>	<b>\$ 71,656</b>	<b>\$ 25,191</b>	<b>\$ 26,004</b>	<b>\$ 22,690</b>	<b>\$ 145,541</b>	<b>\$ 121,894</b>
LIABILITIES						
Accounts payable	\$ 8,420	\$ 1,719	\$ -	\$ 31	\$ 10,170	\$ 9,445
Accrued expenses	678	1,034	-	598	2,310	1,287
Due to other funds	28,518	6,215	-	-	34,733	22,850
Deferred revenues	-	-	-	-	-	-
Other liabilities	1,107	-	-	-	1,107	2,772
<b>TOTAL LIABILITIES</b>	<b>38,723</b>	<b>8,968</b>	<b>-</b>	<b>629</b>	<b>48,320</b>	<b>36,354</b>
FUND EQUITY:						
Fund balance - unreserved	32,933	16,223	26,004	22,061	97,221	85,540
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 71,656</b>	<b>\$ 25,191</b>	<b>\$ 26,004</b>	<b>\$ 22,690</b>	<b>\$ 145,541</b>	<b>\$ 121,894</b>

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**SCHOOL SERVICE FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Local sources:				
Adult lunches	\$ 8,156	\$ 7,752	\$ (404)	\$ 8,397
A-La-Carte	103,480	104,396	916	101,042
Special milk	2,581	2,395	(186)	2,601
Breakfast	14,350	11,167	(3,183)	14,368
Student lunches	2,924	2,997	73	2,573
School store revenue	10,000	1,807	(8,193)	5,050
Vending machines	140,406	146,122	5,716	136,292
Earnings on investments	413	662	249	429
Miscellaneous	87,437	93,497	6,060	92,200
Total local sources	369,747	370,795	1,048	362,952
State sources	13,850	13,932	82	15,843
Federal sources:				
School lunch program	109,951	116,218	6,267	110,187
USDA entitlements	22,713	21,653	(1,060)	21,943
USDA bonus entitlements	2,162	3,637	1,475	6,575
Total federal sources	134,826	141,508	6,682	138,705
TOTAL REVENUES	518,423	526,235	7,812	517,500
EXPENDITURES:				
Labor	135,946	130,954	4,992	126,306
Total employee benefits	86,151	85,623	528	76,136
Supplies, materials, and other	298,305	313,252	(14,947)	296,371
TOTAL EXPENDITURES	520,402	529,829	(9,427)	498,813
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (1,979)	(3,594)	\$ (1,615)	18,687
FUND BALANCE, BEGINNING OF YEAR		36,527		17,840
FUND BALANCE, END OF YEAR		\$ 32,933		\$ 36,527



**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**ATHLETIC FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Local sources:				
Athletics	\$ 11,251	\$ 10,322	\$ (929)	\$ 2,465
Football	4,731	5,480	749	6,775
Girls basketball	7,408	20,248	12,840	7,833
Boys basketball	8,441	7,077	(1,364)	7,088
Hockey	19,165	13,717	(5,448)	11,672
Swim team	6,218	2,351	(3,867)	5,276
Ski Team	175	6,678	6,503	8,452
Track	2,777	3,047	270	3,064
Golf	1,815	690	(1,125)	402
Cross Country	-	3,974	3,974	180
Volleyball	1,645	3,345	1,700	1,389
Cheerleaders	450	220	(230)	-
Pop fund	26,588	5,621	(20,967)	14,231
Total local sources	90,664	82,770	(7,894)	68,827
EXPENDITURES:				
Athletics	66,045	67,533	(1,488)	61,682
Cross country	4,800	7,672	(2,872)	5,153
Football	46,689	46,434	255	38,211
Girls basketball	38,351	47,060	(8,709)	38,007
Boys basketball	33,801	28,697	5,104	33,946
Hockey	33,532	37,592	(4,060)	36,159
Ski team	6,101	13,356	(7,255)	14,251
Swim team	8,925	8,524	401	12,737
Track	31,649	30,516	1,133	27,857
Golf	4,423	4,285	138	3,658
Cheerleaders	1,849	5,645	(3,796)	1,350
Volleyball	22,009	21,448	561	19,238
Pop fund	22,200	9,943	12,257	12,573
TOTAL EXPENDITURES	320,374	328,705	(8,331)	304,822
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(229,710)	(245,935)	(16,225)	(235,995)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	231,641	238,000	6,359	238,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	\$ 1,931	(7,935)	\$ (9,866)	2,005
FUND BALANCE, BEGINNING OF YEAR		24,158		22,153
FUND BALANCE, END OF YEAR		\$ 16,223		\$ 24,158

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**COMMUNITY SERVICE FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Local sources:				
KGTN child care	\$ 44,106	\$ 42,218	\$ (1,888)	\$ 41,903
Swim lessons	3,056	1,965	(1,091)	1,190
Latchkey	1,528	750	(778)	1,453
Basketball camp	2,710	2,233	(477)	2,673
GED	5,374	2,780	(2,594)	3,540
Summer kids camp	-	-	-	19,276
Golf	-	229	229	539
Total local sources	<u>56,774</u>	<u>50,175</u>	<u>(6,599)</u>	<u>70,574</u>
EXPENDITURES:				
KGTN child care	44,127	42,344	1,783	42,960
Swim lessons	3,073	2,972	101	2,103
Latchkey	1,526	499	1,027	590
Adult enrichment	-	564	(564)	453
Basketball camp	2,790	2,232	558	2,672
GED	5,258	4,358	900	5,377
Summer kids camp	-	-	-	14,950
TOTAL EXPENDITURES	<u>56,774</u>	<u>52,969</u>	<u>3,805</u>	<u>69,105</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>(2,794)</u>	<u>\$ (2,794)</u>	<u>1,469</u>
FUND BALANCE, BEGINNING OF YEAR		<u>24,855</u>		<u>23,386</u>
FUND BALANCE, END OF YEAR		<u>\$ 22,061</u>		<u>\$ 24,855</u>

**HOUGHTON-PORTAGE TOWNSHIP SCHOOLS**  
**TRUST AND AGENCY FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**Year Ended June 30, 2006**

	<u>Balance</u> <u>July 1, 2005</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>June 30, 2006</u>
ASSETS:				
Cash	<u>\$ 60,038</u>	<u>\$ 219,794</u>	<u>\$ 126,218</u>	<u>\$ 153,614</u>
LIABILITIES:				
Due to general fund	\$ 16,704	\$ 65,547	\$ 2,751	\$ 79,500
Due to organization and class funds	<u>43,334</u>	<u>154,247</u>	<u>123,467</u>	<u>74,114</u>
TOTAL LIABILITIES	<u>\$ 60,038</u>	<u>\$ 219,794</u>	<u>\$ 126,218</u>	<u>\$ 153,614</u>

**HOUGHTON-PORTAGE TOWNSHIP SCHOOLS**  
**SCHOLARSHIP FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**Year Ended June 30, 2006**

	<u>Balance</u> <u>July 1, 2005</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>June 30, 2006</u>
ASSETS:				
Cash	\$ 142,854	\$ 6,642	\$ 2,500	\$ 146,996
LIABILITIES:				
Scholarship funds	\$ 142,854	\$ 6,642	\$ 2,500	\$ 146,996

## **FEDERAL AWARDS PROGRAMS**



Bruce A Rukkila, CPA, PC

Full Service Accounting Firm  
for the Western Upper Peninsula

310 Sheldon Avenue • Houghton MI 49931  
(906) 482-6601 • Fax: (906) 482-9046  
e-mail: help@brucerukkila.com  
www.brucerukkila.com

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Houghton-Portage Township School District  
Houghton, Michigan

We have audited the financial statements of Houghton-Portage Township School District as of and for the year ended June 30, 2006, and have issued our report thereon dated September 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Houghton-Portage Township School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Houghton-Portage Township School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the school district's board of education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

October 3, 2006



Bruce A Rukkila, CPA, PC

Full Service Accounting Firm  
for the Western Upper Peninsula

310 Shelden Avenue • Houghton MI 49931  
(906) 482-6601 • Fax: (906) 482-9046  
e-mail: help@brucerukkila.com  
www.bruцерukkila.com

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education  
Houghton-Portage Township School District  
Houghton, Michigan

**Compliance**

We have audited the compliance of Houghton-Portage Township School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Houghton-Portage Township School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Houghton-Portage Township School District's management. Our responsibility is to express an opinion on Houghton-Portage Township School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Houghton-Portage Township School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Houghton-Portage Township School District's compliance with those requirements.

In our opinion, Houghton-Portage Township School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

**Internal Control Over Compliance**

The management of Houghton-Portage Township School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Houghton-Portage Township School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the school district's board of education, management and federal awarding agencies and passthrough entities. However, this report is a matter of public record and its distribution is not limited.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

October 3, 2006



**HOUGHTON-PORTAGE TOWNSHIP SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2006**

Federal Grantor/Pass Through Grantor Program Title	Federal CFDA Number	Grant Award Amount	Accrued Revenue 07/01/05	Current Year Receipts	Current Year Expenditures	Accrued Revenue 06/30/06
U.S. Department of Education:						
Passed Through MDE						
Title I Part A Grant 061530-0506	84.010	\$ 184,704	\$ 0	\$ 171,002	\$ 184,704	\$ 13,702
Title I Part A Grant 051530-0506	84.010	32,595	0	32,595	32,595	0
Title I Part A Grant 051530-0405	84.010	215,014	105,654	118,980	13,326	0
		<u>432,313</u>	<u>105,654</u>	<u>322,577</u>	<u>230,625</u>	<u>13,702</u>
Even Start 060390 D0637CES	84.213	225,000	0	225,000	225,000	0
Even Start 050390-C0525CES	84.213	225,000	87,747	87,747	0	0
		<u>450,000</u>	<u>87,747</u>	<u>312,747</u>	<u>225,000</u>	<u>0</u>
Title V LEA Allocation 060250-0506	84.298	1,832	0	1,832	1,832	0
Title V LEA Allocation 050250-0405	84.298	3,007	3,007	3,007	0	0
		<u>4,839</u>	<u>3,007</u>	<u>4,839</u>	<u>1,832</u>	<u>0</u>
Title II Part D Grant 64290-0506	84.318	3,754	0	3,754	3,754	0
Title II Part D Grant 054290-0405	84.318	5,522	97	439	342	0
		<u>9,276</u>	<u>97</u>	<u>4,193</u>	<u>4,096</u>	<u>0</u>
Title II Part A Grant 060520-0506	84.367	68,597	0	68,598	68,598	0
Title II Part A Grant 040520-0405	84.367	71,337	39,187	39,187	0	0
Title II Part A Grant 050520-0506	84.367	35,064	0	35,064	35,064	0
		<u>174,998</u>	<u>39,187</u>	<u>142,849</u>	<u>103,662</u>	<u>0</u>
Total U.S. Department of Education		<u>1,071,426</u>	<u>235,692</u>	<u>787,205</u>	<u>565,215</u>	<u>13,702</u>
U.S. Department of Agriculture:						
Passed Through MDE						
National School Lunch						
Section 4 - All Lunches 051950	10.555	4,020	0	4,020	4,020	0
Section 4 - All Lunches 061950	10.555	23,583	0	19,406	23,583	4,177
Section 11 - Free & Reduced 051960	10.555	11,871	0	11,871	11,871	0
Section 11 - Free & Reduced 061960	10.555	68,453	3,744	56,434	64,709	12,019
Snacks 051980	10.555	671	0	671	671	0
Snacks 061980	10.555	1,405	173	1,066	1,232	339
		<u>110,003</u>	<u>3,917</u>	<u>93,468</u>	<u>106,086</u>	<u>16,535</u>
Breakfast 061970	10.553	8,573	0	6,910	8,573	1,663
Breakfast 051970	10.553	2,138	579	2,138	1,559	0
		<u>10,711</u>	<u>579</u>	<u>9,048</u>	<u>10,132</u>	<u>1,663</u>
Food Distribution - Entitlement	10.550	21,653	0	21,653	21,653	0
Food Distribution - Bonus Commodities	10.550	3,637	0	3,637	3,637	0
		<u>25,290</u>	<u>0</u>	<u>25,290</u>	<u>25,290</u>	<u>0</u>
Total U.S. Department of Agriculture		<u>146,004</u>	<u>4,496</u>	<u>127,806</u>	<u>141,508</u>	<u>18,198</u>
U.S. Department of Homeland Security:						
Passed Through Michigan State Police						
Homeland Security Grant	97.004	547	0	547	547	0
TOTALS		<u>\$ 1,217,977</u>	<u>\$ 240,188</u>	<u>\$ 915,558</u>	<u>\$ 707,270</u>	<u>\$ 31,900</u>

**HOUGHTON-PORTAGE TOWNSHIP SCHOOLS**  
**SCHEDULE OF FEDERAL ASSISTANCE**  
**PROVIDED TO SUB-RECIPIENTS**  
**JUNE 30, 2006**

Sub-recipients Program Title/ Project Number	CFDA Number	Grant Award	Amount Transferred/ Payable
Even Start	84.213		
Baraga-Houghton-Keweenaw Child Development #060390 D0637CES		<u>\$ 225,000</u>	<u>\$ 225,000</u>

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - June 30, 2006**

---

**NOTE A - OVERSIGHT AGENCY**

The U. S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the school's federal financial assistance.

**NOTE B - BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

**NOTE C - FINAL COST REPORT - FORM DS4044**

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year grants were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with the prior year audited figures.

**NOTE D - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION**

A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards to federal revenue recognized on page 49 of these financial statements is \$707,270.

The amounts reported as current payments on the R7120, Grant Section Auditors Report prepared by the State of Michigan, reconcile to the Schedule of Expenditures of Federal Awards as follows:

Total current payments per R7120	\$ 889,719
Rounding	1
Account Receivables:	
National School Lunch	18,198
Title I	13,702
Less Prior Year Account Receivables:	
National School Lunch	(4,496)
Title I	(105,654)
Title II Part A	(39,187)
Title II Part D	(97)
Title V	(3,007)
Even Start	(87,746)
Plus: Payments received through sources other than the	
Michigan Department of Education:	
Homeland Securities	547
Food Commodities	25,290
	<hr/>
Receipts per Schedule of Expenditures of Federal Awards	<u>\$ 707,270</u>

**HOUGHTON-PORTAGE TOWNSHIP SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the year ended June 30, 2006**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued:	Unqualified
Internal Control over financial reporting:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	None Reported

Type of auditor's report issued on compliance for major programs:	Unqualified
---	-------------

Any audit findings disclosed that are required to be reported in accordance with section 520(a) of Circular A-133?	No
--	----

Identification of major programs:	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	84.010	Title I

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
--	-----------

Auditee qualified as low-risk auditee?	Yes
--	-----

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.



Bruce A Rukkila, CPA, PC

Full Service Accounting Firm  
for the Western Upper Peninsula

310 Sheldon Avenue • Houghton MI 49931  
(906) 482-6601 • Fax: (906) 482-9046  
e-mail: help@brucerukkila.com  
www.bruцерukkila.com

### LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education  
Houghton-Portage Township School District  
Houghton, Michigan

In connection with our audit of the financial statements of Houghton-Portage Township School District, as of and for the year ended June 30, 2006, the following concerns regarding the accounting records, procedures, and the internal control structure came to our attention and are presented for your consideration.

#### Board Minutes Documentation (2nd year repeat)

At the first meeting of the year, it was mentioned in the minutes that signature authorization was granted to four board officials. It is required that the names of authorized signers be included in the minutes.

When adopting or amending the budget, it is important to state the total revenues and expenditures approved and attach a signed copy of the budget to those minutes.

#### Public Act 738 - Electronic Transactions of Public Funds

The District should be aware of Act 738 - "Electronic Transactions of Public Funds". This Act affects electronic payments and transfers by local unites, including school districts. The Act requires the District to adopt a resolution to authorize use of automated clearinghouse (ACH) arrangements. The District needs to designate an Electronic Transaction Officer, develop a written policy regarding procedures and internal controls, and initiate a board resolution to adopt the ACH policy. The Electronic Transaction Officer that the District chooses will be responsible for the ACH agreements that include payment approval, accounting, reporting, and compliance with the ACH policy.

#### Public Act 621 - Budget Over Expenditures

Public Act 621 of 1978, as amended, prohibits expenditures in excess of budgeted appropriations. Instances of violations of these provisions are readily ascertainable from the general purpose financial statements and the accompanying information. There were no material overages in the individual budgeted funds.

We would like to thank the administration staff for the excellent cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended for the information of the School District's Board of Education, the cognizant audit agency and other federal and state audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

October 3, 2006